BOOK REVIEW: "BOARD OF DIRECTORS: A REVIEW OF PRACTICES AND EMPIRICAL RESEARCH"

by

Stefano Dell'Atti, Montserrat Manzaneque, and Shab Hundal

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Boards of directors are considered crucial corporate governance mechanisms, with a strategic role in advising and monitoring corporate decisions. That's why they have generated considerable attention among corporate governance scholars and business press and they have been the subject of extensive conceptualization and empirical research. Over time, corporate governance researchers have, in fact, tried to produce, develop, and publish cutting-edge research, covering a wide range of research topics related to boards, with different theoretical lenses, new perspectives and different methodologies.

Most research on corporate boards has focused on the control function (Fama, 1980; Zahra & Pearce, 1989), with a small volume of research devoted to different board's roles, such as the service role (Lorsch & MacIver, 1989), which addresses directors' provision of advice and counsel to managers and the chief executive officer (CEO). Among the issues, widely researched topics in the field of corporate boards are related to the links between board structure and firm value, different strategic decisions, including investment and financing choices, risk management and disclosure, focussing in particular on board size; board composition; the role of non-executive and independent directors; separation of the roles of CEO and chairman; directors' remuneration; the structure and activity of board committees; board leadership; board activity and functioning; the influence of contexts and institutions.

Notwithstanding a great deal of research on boards of directors, there is still a need for further research in many directions, especially in the present period, characterised by the COVID-19 pandemic, which has stressed the importance of boards in overcoming the crisis (Grove, Clouse, & Xu, 2021; Zattoni & Pugliese, 2021).

We still know little about how boards work and how their behaviour may be improved to contribute to value creation (Huse, Hoskisson, Zattoni, & Viganò, 2011). We still need to explore other theories that can help us understand boards of directors and that could open new pathways for the researchers, after many decades in which agency theory has been the dominant theory. There is also a call for studies focused on countries with high ownership concentration and the presence of controlling shareholders, advancing the knowledge of how boards perform in these contexts, or on developing countries.

The relationship between corporate governance and firm performance has, for example, mainly been explored in developed economies (Hermalin & Weisbach, 1991; Barnhart, Marr, & Rosenstein, 1994; Bhagat & Bolton, 2008; Alqatan, Chbib, & Hussainey, 2019), while the empirical work on this issue is still at its infancy in the context of developing countries (Arora & Sharma, 2016; Alanazi, 2019).

Moreover, although scholars have extensively investigated the impact of board structure on corporate social responsibility (CSR) performance (Glass, Cook, & Ingersoll, 2016; Walls & Berrone, 2017; Calza, Profumo, & Tutore, 2017), there are several inconsistencies and a lack of clarity regarding its effect and how some types of board managers, such as women, actually contribute to CSR.

The book "*Board of directors: A review of practices and empirical research*" by Dell'Atti, Manzaneque, and Hundal (2020) responds to some of the aforementioned calls, expanding the knowledge of corporate boards. It attempts to fill some of the research gaps presented before, in particular regarding the research in diverse institutional contexts, such as Jordan, Saudi Arabia, India, Malaysia or countries with high ownership concentration and the presence of family firms, such as Italy or Spain, or the studies on how different board characteristics may influence sustainability and its disclosure, firm performance and pay-out policies. Some of the papers included in the book try also to explore new theoretical lenses, searching for alternative perspectives to agency theory.

Chapters 4, 5 and 6 are devoted to addressing the impact of corporate board characteristics on firm performance and corporate risk disclosure in emerging markets, increasing the understanding of how corporate governance mechanisms work in transition and emerging economies. Studying these issues in such contexts is always a difficult task, due to the relative opaque corporate disclosure practices and the problems of unavailability of the data useful for the empirical analyses, so any attempts to shed light on them are to be welcomed.

Chapter 4 leads a reader into the Saudi Arabia institutional context, which is built on a strong tribal structure, with royal family members at the top, also on the board of directors. Searching, in particular, for the board characteristics that could influence the disclosure of risk-related information, the authors increase the knowledge of one of the largest capital markets in the world for its market capitalization and on a market that, after several reforms, is trying to mobilize savings and attract foreign capital investment.

Chapters 5 and 6, instead, focus on the Indian and Malaysian corporate governance systems and on how multiple directorships and board characteristics may influence firm performance. The Indian context is indeed worthy to study as it is hybrid in nature, incorporating characteristics of the Anglo-Saxon governance system, centred on the role of the market, and the bank-based European governance system. In this context, analysed through the interplay of two different theories, agency and resource dependence, multiple directorships have been found to negatively affect firm performance, with several implications for other emerging markets with a similar corporate governance structure.

Chapter 1 of the book responds to the call for studies on emerging markets in the CSR and sustainability area. Using the legitimacy theory, the author analyses the role of board size, the presence of an audit committee and CEO duality in influencing the level and quality of CSR reporting in Jordan. In addition, the results have captured the effect (before and after) of the issuing of the corporate governance code in 2009, providing an important evaluation of the code from a CSR reporting perspective.

The other chapters are instead focused on institutional contexts where large shareholders, family firms and business groups are present, such as Italy and Spain.

Chapter 2 of the book examines the relationship between board diversity, in terms of gender, education and expertise, and earnings management, with a focus also on the diversity of the board statutory auditor (BSA) in Italy. The findings show that, while diversity within the board seems to be irrelevant to earning management behaviours, diversity within the BSA seems to reduce earnings management, helping firms to be more ethical.

Chapters 3 and 8 investigate two characteristics of the Italian institutional context: family ownership and business groups, in terms of power of the parent-subsidiary relationship.

As in family firms the performance stability can be of great importance for firm survival over time, in Chapter 3 the author seeks to study the board characteristics that may be related to lower levels of performance variability. Using two contrasting theories, agency and resource dependence, the results suggest that family firm owner-managers are likely to use board interlocks to help the firm overcome problems of performance stability over time. Appointments of interlocks might be made with the intention of building a long-term reputation and creating social capital structures.

As regards business groups, Chapter 8 assesses the issue of subsidiary boards, referring to the phenomenon of the separation between ownership and control. In Italy, in fact, more than half of the listed companies are controlled by other entities, some of which are listed and, in the analyses of the effects of the boards, the consequences generated by the coordination activity of the parent company should be considered.

Chapters 7 and 9 focus again on the relationship between the board and firm performance. In the first case, the authors deal with directors' remuneration, one of the challenges of board effectiveness, in Spain. They found that the directors' remuneration is weakly related to business performance, except for the remuneration granted to independent and proprietary directors. Chapter 9 is instead related to the characteristics of board members in the field of higher education in Italy (independence, time availability, expertise, and international orientation) and their impact on board performance, with stimulating results in an industry that has attracted less interest from the corporate governance scholars.

Lastly, Chapter 10 provides a very pragmatic agenda, based on pivotal questions, to consider the dynamics of the split and the better implementation of the separation of the chairman role from the CEO role. This topic adds a practitioner-oriented issue to the book, building a bridge between practice and theory.

Overall, this book is dealing with timely topics that try to fill extant research gaps in board literature, especially in the field of new institutional settings. This is, in fact, a must-read book for scholars interested in emerging markets or institutional settings characterised by concentrated ownership. Also, practitioners which want to increase their knowledge of those markets could benefit from the results of the book.

Hopefully, the topics of the collection of papers will help researchers focused on the board of directors to generate new ideas on these issues and establish new research directions in the future.

In corporate governance, institutional environments are becoming more and more important, so the results of this book could clear the way for an underdeveloped body of literature based on a comparative approach useful to highlight cross-national institutional differences and their implications on corporate governance and performance (Aguilera, Floracki,s & Kim, 2016).

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